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TO RUEHC/SECSTATE WASHDC 0752
INFO RUEHBJ/AMEMBASSY BEIJING 5329
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RUEHHK/AMCONSUL HONG KONG 6537
RUEHGZ/AMCONSUL GUANGZHOU 9390
RUEHSH/AMCONSUL SHENYANG 5264
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEAIIA/CIA WASHDC

UNCLAS TAIPEI 002098

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SUBJECT: UMC Puts He Jian Stake in Trust as Investigations Continue

REF: A) 05 Taipei 1924

B) 05 Taipei 5045

C) Taipei 85

D) Taipei 543

¶1. At a June 12 shareholders meeting, Chairman Jackson Hu of United Microelectronics Corporation, Taiwan's second largest semiconductor manufacturer, announced that the firm had placed US\$ 110 million worth of stock in He Jian Technology into a trust. He Jian, a PRC semiconductor manufacturer, agreed to give UMC the shares, which account for 15 percent of He Jian's stock, in exchange for "administrative assistance" provided by UMC. UMC has asked Taiwan's Ministry of Economic Affairs for guidance on how it can legally take ownership of the He Jian shares, but has not yet received a response. Hu told shareholders at last week's meeting that as soon as Taiwan authorities give approval, UMC will resume its share-holding rights.

¶2. Former UMC Chairman Robert Tsao and former Vice Chairman John Hsuan, who were both indicted in January 2006 (ref C), still await trial on charges that they violated the trust of shareholders by secretly investing in He Jian. Tsao was fined NT\$ 3 million (about

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US\$ 90,000) by Taiwan's Financial Supervisory Commission in April 2005 for failing to promptly report dealings with He Jian to UMC shareholders (ref A). MOEA's Investment Commission fined UMC NT\$ 5 million in February 2006 for illegally investing in He Jian (about USD 150,000) (ref D). UMC has filed for appeal of the fine with Taiwan's Commission of Administrative Appeals.

¶3. Comment: The final resolution of the UMC-He Jian case will be an important signal of how the Chen administration will execute its "active management" policy for investment in the Mainland. The July 27-28 Sustainable Economic Development Conference (SEDC) may help the administration reach consensus on how to bring the case to closure. End comment.

KEEGAN